

CIADI EIW 99-021

~~Secret~~ TIER
6/1



Directorate of Intelligence

APPROVED FOR
RELEASE
DATE: APR 2007

(b) (1)
(b) (3)



Economic Intelligence Weekly

29 May 1999



~~Secret~~

DI EIW 99-021
29 May 1999

Copy 0039

~~Secret~~

Contents

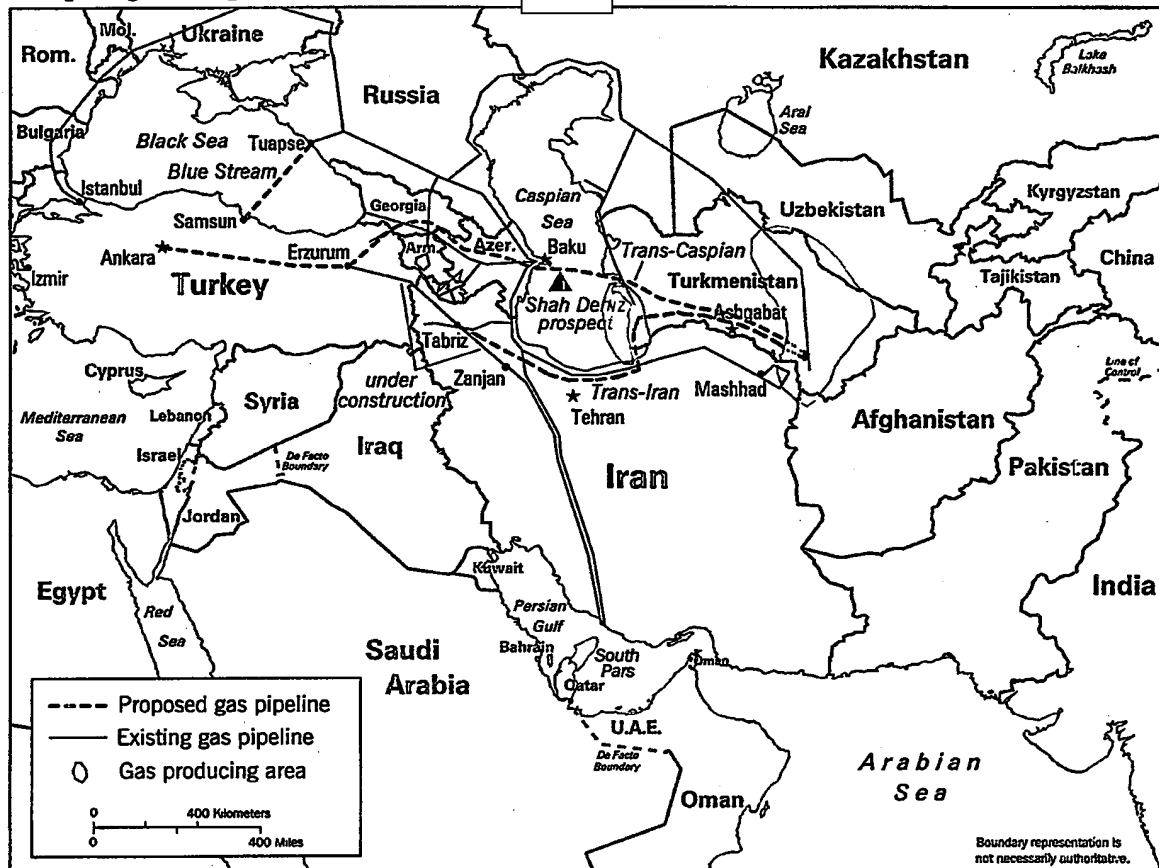
Progress on Caspian Gas Pipeline, but New Challenges Emerge

11

~~Secret~~
29 May 1999

~~Secret~~

Competing Gas Pipeline Routes to Turkey



750158 (R01369) 6-99

~~Secret~~

29 May 1999

~~Secret~~

Progress on Caspian Gas Pipeline, but New Challenges Emerge

The signing of a gas purchase agreement between Turkmen President Niyazov and Turkish Energy Minister Aktas is a major step in securing access to the Turkish market, but the trans-Caspian gas pipeline (TCP) still faces stiff competition from Russia's Blue Stream project and a new Azerbaijani initiative. The TCP through Azerbaijan and Georgia offers Turkmenistan a way to divert gas exports around Iran, which otherwise could offer Ashgabat an attractive route to Turkish and other European markets.

- Turkish demand is projected to rise from about 15 billion cubic meters this year to more than 50 bcm in 2010, but the market is oversubscribed.
- The TCP is expected to supply 16 bcm per year to Turkey and 14 bcm per year to Europe over the longer term.

Turkmenistan secured a loan from a German bank to pay its arrears to the US Export-Import Bank, a necessary step before project financing of the TCP can proceed.

Competition From Azerbaijan and Russia

If Baku secures a purchase contract with Ankara, gas exports from Azerbaijan will undermine the feasibility of the TCP. Amid industry press reports of a significant gas find in Azerbaijan, state oil company foreign investment chief Aleskerov this month Baku would not agree to transport Turkmen gas if it meant shutting-in Azerbaijani gas.

- Aleskerov said BP Amoco's well on the Shah Deniz prospect had resulted in a "very large" discovery that could produce 10 to 15 bcm per year some time after 2002.

- He implied that Turkmenistan would be allowed to provide only supplemental gas volumes to Turkey.

Meanwhile, financing for Gazprom's pipeline across the Black Sea to Turkey is moving forward despite technical challenges. Officials from Gazprom and Botas say financing for the Blue Stream project could be completed next month, with construction of the subsea segment starting this autumn, according to press reports.

The Iranian Fallback

If the TCP loses momentum, Ashgabat would be forced to reexamine routes through Iran. A gas pipeline that initially will carry 3 to 10 bcm per year between Iran and Turkey will be finished this year, according to industry press reports.



~~Secret~~

29 May 1999